

VZCZCXYZ0006  
RR RUEHWEB

DE RUEHPE #0635/01 0642059  
ZNR UUUUU ZZH  
R 052059Z MAR 07  
FM AMEMBASSY LIMA  
TO RUEHC/SECSTATE WASHDC 4228  
INFO RUEHAC/AMEMBASSY ASUNCION 1619  
RUEHBO/AMEMBASSY BOGOTA 4406  
RUEHBU/AMEMBASSY BUENOS AIRES 2808  
RUEHLP/AMEMBASSY LA PAZ MAR MADRID 2810  
RUEHQT/AMEMBASSY QUITO 1047  
RUEHRO/AMEMBASSY ROME 0532  
RUEHKO/AMEMBASSY TOKYO 2623

UNCLAS LIMA 000635

SIPDIS

SENSITIVE  
SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [PE](#)

SUBJECT: REMITTANCES REMAIN A STABLE SOURCE OF FOREIGN  
INCOME, THOUGH BELOW REGIONAL AVERAGE

¶1. (U) SUMMARY: Remittances in Peru continue to demonstrate upward growth though the rate of increase lags behind Latin America as a region. Over the past 11 years, remittance inflows into Peru increased nearly threefold from \$599 million in 1995 to \$1.796 billion in 2006 (about 2% of GDP). The growth trend is to continue through 2008 when remittances will reach an estimated \$2.259 billion. Between 2000 and 2005, remittances inflows into Peru increased by 101 percent whereas remittance inflows into Latin America increased by 136 percent. The difference can be attributed to Peru's strong macroeconomic performance -- 22 quarters of sustained growth. The United States is the leading source of remittances, contributing 46 percent of remittances to Peru. End Summary.

#### A CASH COW INDUSTRY

-----

¶2. (U) Remittances have provided the most stable inflow of income into Peru over the past decade. The steady increase in remittances stands in stark contrast to other forms of capital inflows into Peru. According to a Central Bank of Peru (Banco Central de Reserva del Peru, BCR) study, between 1995 and as projected through 2008, there was only one year, 2002, when remittances were not at about the same level or higher over the previous year. By comparison, foreign direct investment fluctuated due to changes in the investment environment in Peru. As foreign direct investment dropped from over \$2 billion in 1995 to less than \$0.6 billion in 2000 and then recovered to a slightly higher level at \$2.5 billion, remittances have steadily increased as a share of GDP. There was particularly sharp growth over the 2003-2006 period with annual increases eclipsing 23 percent. For 2006, remittances contributed to 1.9 percent of gross domestic product (GDP) in Peru. The BCR projects an increase to 2.1 percent of GDP in 2008.

¶3. (U) There are three channels for transmitting remittances. The lead channel is Fund Transfer Enterprises (ETFs) which accounts for 50 percent of Peru's remittance inflows or about \$720 million in 2005. An example of this type of enterprise is Western Union. In Peru, two local companies -- Jet Peru and Serviban -- dominate the business, both accounting for roughly 25 percent of the market for a total share of 50 percent. Western Union has a market presence but is not a major player. The second most popular channel is the formal banking system which accounts for 28 percent of remittances or, in 2005, \$322 million. The remaining channel is termed "other channels" and accounts for 22 percent of the total, or \$322 million. This last type is a popular method in Japan for transmitting funds. Typical of this type of

organization are cooperatives which are consumer, business, or even community based.

#### INFORMALITY POSES FORMAL ESTIMATION CHALLENGES

¶4. (U) There are recipients of remittances who are outside of the formal financial system and can receive remittances through informal channels that are not readily tracked by banking institutions. The informality issue is a technical challenge to the formal estimation of remittances. Due to informality, there are differences in the estimation of the magnitude of this phenomenon. For instance, an Inter American Development Bank (IDB) commissioned study estimated 2005 remittance inflows into Peru at \$2.495 billion compared to the BCR's estimate of \$1.440 billion. The BCR staff believes there are three weaknesses to the IDB study: (1) the IDB classifies 41 percent of the inflows as entering Peru through the informal channel while the BCR estimates these inflows at only 10 percent of the total; (2) the lack of a properly defined household sample receiving remittances; and (3) the BCR staff argues that the huge variance of over \$1 billion between the two estimates would be reflected in permanent negative levels of Peru's balance of payments. Regardless of the estimate, Post's analysis of the different methodologies argues in favor of the BCR's method of estimation.

#### WHO REMITS? U.S., SPAIN, JAPAN...

¶5. (U) The United States is the source for the largest share of Peruvian remittance inflows at an estimated 46 percent. The next largest source of remittances is Spain, accounting for 13 percent. Next is Japan at 11 percent and then Italy

at 9 percent. Within Latin America, the lead source for remittances directed to Peru is Argentina with 5 percent. Post developed an estimate of the origin of the remittances as the BCR study stopped short of providing estimates from all sources. The table below summarizes the remittance inflows into Peru by both channel and country.

Channels of Remittance Inflows into Peru by Country, 2005

Country	ETFs	Banks	Other	Country Total
U.S.	25.9%	14.3%	5.8%	45.9%
Spain	7.0%	3.9%	1.6%	12.5%
Japan	nil	nil	11.2%	11.2%
Italy	5.1%	2.8%	1.1%	9.0%
Argentina	2.6%	1.4%	0.6%	4.6%
Chile	2.2%	1.2%	0.5%	3.9%
Ecuador	1.2%	0.7%	0.3%	2.1%
Germany	0.6%	0.3%	0.1%	1.1%
Others	5.5%	3.0%	1.2%	9.7%
Channel Total	50.0%	27.6%	22.4%	100.0%
Dollars (MM)	\$720	\$397	\$322	\$1.440

Sources: BCR and Embassy Lima

¶6. (U) Remittances from countries in areas with potential criminal or terrorist activities were on the level of less than \$1 million via ETFs (this is the only channel for which data is available). In rank order, Paraguay had the highest level in 2005 with \$800,000 million transferred. Next was Jordan, Kuwait, and Bahrain with \$500,000 each followed by Lebanon with \$100,000 and then finally Iran and Iraq with \$2,000 each.

¶7. (SBU) Peru's Financial Intelligence Unit (FIU) reviews remittances in cases of suspected money laundering and has investigated at least one remittance case in relationship to a suspected money laundering transaction. Although this case illustrated the potential for returning laundered funds to

Peru via remittances, we are not aware of any major focus on the use of remittances to launder money.

COMMENT

-----  
18. (U) Worldwide, the growth in remittances is a formidable trend. Peru has demonstrated a steady and increasing appetite for remittances with a rate of increase from 2000 to 2005 at an impressive 101 percent. Although this rate is less than the Latin American average of 136 percent, it is possible that Peru's strong macroeconomic performance since 2000 improved opportunities at home and its impact on reducing poverty -- particularly among the middle to lower echelon of the impoverished class -- could explain Peru's "slower growth curve" for remittances as compared to Latin America as a whole.  
STRUBLE